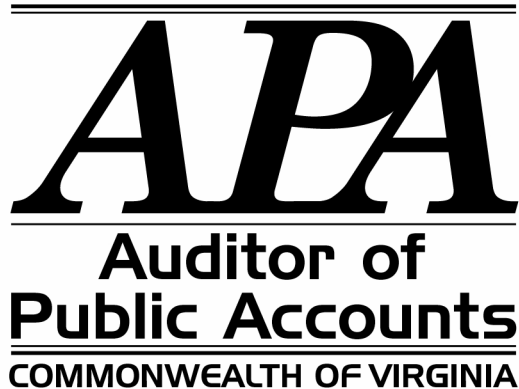


**LOCAL GOVERNMENT INVESTMENT POOL
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



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January 29, 2004

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Virginia Treasury Board
and Pool Participants
Local Government Investment Pool

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the **Local Government Investment Pool** as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Department of Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Investment Pool as of June 30, 2003, and the changes in financial position thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Local Government Investment Pool's basic financial statements. The Schedule of Selected Participant Share and Ratio Information and Schedule of Investments listed in the table of contents

are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects to the financial statements taken as a whole.

AUDITOR OF PUBLIC ACCOUNTS

SHW:aom
aom:69

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Local Government Investment Pool (the LGIP) annual financial report presents an analysis of the Local Government Investment Pool's financial performance during the fiscal year that ended on June 30, 2003. This information should be considered in conjunction with the information contained in the financial statements, which follow this section.

LGIP Activities and Highlights

The Local Government Investment Pool was established January 1, 1981 pursuant to the Investment of Public Funds and Local Government Investment Pool Act, Section 2.2-4600 of the Code of Virginia. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of "2a7-like pools."

Overview of the Financial Statements

This discussion and analysis is an introduction to the LGIP's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. The LGIP is not required to present government-wide financial statements since all of its activity is reported in a fiduciary fund, which would not change in measurement focus (economic resources) or basis or accounting (accrual) for government-wide statements.

The financial statements of the LGIP offer financial information about its activities. The Statement of Net Assets provides information about the nature and amounts of the LGIP's cash, investments and receivables (assets) and their administrative fees (liabilities). The statement of Changes in Fiduciary Net Assets reports the additions to, deductions from, and net increases in net assets.

Financial Analysis

The primary purpose of the LGIP is to provide a fund that would allow governmental entities to increase their return on investments with minimal credit risk. Summary financial information follows.

Local Government Investment Pool (in millions)

	<u>2003</u>	<u>2002</u>
Total assets	<u>\$ 2,778</u>	<u>\$ 2,646</u>
Total net assets	<u>\$ 2,778</u>	<u>\$ 2,646</u>

The increase in net assets in fiscal year 2003 is primarily due to amounts received from participating entities exceeding amounts withdrawn. Active accounts increased from 802 to 840 during the year.

Local Government Investment Pool Change in Net Assets
(in millions)

	<u>2003</u>	<u>2002</u>
Additions:		
Proceeds from units admitted	\$ 4,648	\$ 4,988
Investment earnings	<u>32</u>	<u>56</u>
Total additions	4,680	5,044
Deductions:		
Disbursements for units withdrawn	<u>4,548</u>	<u>4,707</u>
Increase in net assets	132	337
Net assets 7/1/02	<u>2,646</u>	<u>2,309</u>
Net assets 6/30/03	<u><u>\$ 2,778</u></u>	<u><u>\$ 2,646</u></u>

Participation in the LGIP is voluntary, so participant activity variances from year to year are normal. Factors that could influence a potential participant would be the availability of funds to invest and the relative attractiveness of the LGIP's return as compared to other options that may be available to the entity.

Interest income and accrued income is lower this year due to lower interest rates. The federal funds rate declined from 1.75 percent to 1.00 percent during the period. Interest rates have been on a steady decline since early 2001 and are at a 40-year low.

FINANCIAL STATEMENTS

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF FIDUCIARY NET ASSETS - INVESTMENT TRUST FUND
As of June 30, 2003

ASSETS

Investments in cash equivalents, at value (Notes 1 & 2)	\$ 1,634,842,983
Investments in securities, at value (Notes 1 & 2)	<u>1,139,814,457</u>
Net investments	2,774,657,440
Interest receivable	<u>3,702,896</u>
Total assets	<u>2,778,360,336</u>

LIABILITIES

Administrative fee payable	<u>1,248</u>
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NET ASSETS

Held in trust for pool participants	<u>\$ 2,778,359,088</u>
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The accompanying notes to the financial statements are an integral part of this statement.

LOCAL GOVERNMENT INVESTMENT POOL
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS- INVESTMENT TRUST FUND
For the year ended June 30, 2003

Additions:

Contributions:

Proceeds from units admitted	<u>\$ 4,648,089,079</u>
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Investment earnings:

Interest income	29,953,802
Net accrued interest	3,702,896
Net change in unrealized appreciation of investments for the year	(853,844)
Less administrative fee	<u>(1,300,984)</u>

Net investment earnings	<u>31,501,870</u>
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Total additions	4,679,590,949
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Deductions:

Disbursements for units withdrawn	<u>4,547,638,954</u>
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Change in net assets	131,951,995
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Net assets - July 1, 2002	<u>2,646,407,093</u>
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Net assets - June 30, 2003	<u><u>\$ 2,778,359,088</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

LOCAL GOVERNMENT INVESTMENT POOL

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Local Government Investment Pool (LGIP) was established January 1, 1981 pursuant to the Local Government Investment Pool Act, Section 2.2-4600 of the Code of Virginia. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is not registered with the Securities Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," definition of "2a7-like pools."

A. Basis of Presentation

The Treasury Board of Virginia administers the LGIP and presents the activity on an accrual basis. Earnings and expenses accrue daily, but are credited or charged to participants' accounts on a monthly basis.

B. Investment Valuation

Investments in the LGIP are stated at market value where available. However, market value does not include market accrued interest (totaling \$345,419) which is included as a portion of interest receivable on the Statement of Fiduciary Net Assets. Where market value is unavailable, the investments are reported at cost, which due to their short-term nature approximates market value.

Shares are purchased and redeemed at amortized cost. If the LGIP's current market-based net asset value per share should deviate from its amortized cost price per share by an amount exceeding $\frac{1}{2}$ of 1 percent, the State Treasurer, Chair of the Treasury Board, shall assess the situation and determine what action, if any, is in the best interest of the LGIP and its participants. Market-based net asset value is determined on a monthly basis.

2. INVESTMENTS

Funds in the LGIP are invested in accordance with Treasury Board investment guidelines and include obligations of the United States Government or agencies thereof, repurchase agreements, bankers' acceptances, commercial paper, short-term corporate and bank notes and certificates of deposit. The maximum average maturity for the portfolio may not exceed 90 days. The maximum percentage of the Fund permitted in each category and the actual allocation at June 30, 2003 are as follows:

	<u>Maximum Permitted</u>	<u>Actual June 30, 2003</u>
U.S. Treasury/Agency	100%	16%
Bankers' acceptances, negotiable certificates of deposit and/or negotiable bank deposit notes	40%	24%
Non-negotiable certificate of deposit	25%	0%
Commercial paper	35%	32%
Corporate notes and bank notes	25%	13%
Repurchase agreements	50%	15%

Cash equivalents are defined as investments with an original maturity of less than three months. Investments have maturities of one year or less. The LGIP's investments are categorized below to give an indication of the level of credit risk assumed by the LGIP at June 30, 2003. Credit risk is the risk that the LGIP may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by LGIP or its safekeeping agent in the LGIP's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the LGIP's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the LGIP's name. There are no investments in category 2 or 3 at June 30, 2003.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Non-negotiable certificates of deposit	\$ 2,000,000	\$ 2,000,000
Short-term investment fund	2,707,718	2,707,677
U.S. Treasury/Agency	45,837,784	45,803,826
Commercial paper	809,331,481	809,331,481
Negotiable certificates of deposit	349,999,998	349,999,999
Repurchase agreements	<u>425,000,000</u>	<u>425,000,000</u>
Total cash and cash equivalents	<u>\$ 1,634,876,981</u>	<u>\$ 1,634,842,983</u>
Investments:		
U.S. Treasury/Agency	\$ 389,504,274	\$ 388,486,949
Commercial paper	85,722,646	85,722,646
Negotiable certificates of deposit	315,009,250	315,007,103
Corporate notes and bank notes	<u>350,876,910</u>	<u>350,597,759</u>
Total investments	<u>\$ 1,141,113,080</u>	<u>\$ 1,139,814,457</u>

3. DISTRIBUTIONS

The LGIP distributes investment income net of expenses to participants on a monthly basis. The dividend distribution is automatically reinvested into additional shares.

4. SURETY BOND

The Commonwealth of Virginia, through its Department of the Treasury, Division of Risk Management, maintains faithful performance of duty bonding for its agencies, employees and agents in the amount of \$3,000,000.

SCHEDULES

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF SELECTED PARTICIPANT SHARE AND RATIO INFORMATION

Selected ratios and data for the average number of shares outstanding
throughout the years ended June 30, 2001, 2002 and 2003

	June 30, 2003	June 30, 2002	June 30, 2001
Investment income	\$ 0.01521	\$ 0.02655	\$ 0.05923
Expenses	0.00060	0.00062	0.00080
Investment income, net	0.01461	0.02592	0.05843
Income distributions	0.01461	0.02592	0.05843
Increase in net value	\$ -	\$ -	\$ -
Net asset value:			
Beginning of period	\$ 1.00000	\$ 1.00000	\$ 1.00000
End of period	\$ 1.00000	\$ 1.00000	\$ 1.00000
Ratio of investment income, Net to average net assets	1.46%	2.59%	5.84%
Ratio of expenses to average net assets	0.06%	0.06%	0.08%

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS
As of June 30, 2003

	Yield @ Purchase	Carrying Value
U.S. Government Agency Notes:		
Federal Home Loan Bank 4.50% due 7/7/03	1.63%	\$ 25,523,400.00
Federal Home Loan Bank 5.58% due 9/2/03	0.98%	10,599,330.00
Federal Home Loan Bank 5.13% due 9/15/03	0.98%	10,302,204.00
Federal Home Loan Bank 1.40% due 6/2/04	1.38%	25,000,000.00
Federal Home Loan Bank 1.27% due 6/22/04	1.26%	50,000,000.00
Federal Home Loan Bank Step-up 1.25% due 7/15/03	1.25%	75,000,000.00
Federal Home Loan Mortgage Corp. 2.88% due 11/12/03	1.29%	10,120,000.00
Federal Home Loan Mortgage Corp. 3.25% due 12/15/03	1.29%	22,477,910.40
Federal Home Loan Mortgage Corp. 3.55% due 12/19/03	1.08%	10,126,000.00
Federal Home Loan Mortgage Corp. 5.00% due 1/15/04	1.01%	46,016,550.00
Federal Home Loan Mortgage Corp. Discount Note due 9/11/03	1.02%	24,936,250.00
Federal Home Loan Mortgage Corp. Discount Note due 9/30/03	1.02%	49,845,583.35
Federal National Mortgage Association 5.13% due 2/13/04	1.20%	38,084,750.00
Federal National Mortgage Association 4.75% due 3/15/04	1.06%	12,310,080.00
Federal National Mortgage Association 1.47% due 5/14/04	1.45%	25,000,000.00
Total U.S. Government Agency Notes		435,342,057.75
Repurchase Agreements Collateralized by U.S. Government Obligations:		
Goldman Sachs 1.21% due 7/01/2003	1.21%	425,000,000.00
Total Repurchase Agreements Collateralized by U.S. Government Obligations		425,000,000.00
Corporate Notes:		
General Electric Capital Corp. FRN 1.32% due 7/9/04	1.32%	25,000,000.00
General Electric Capital Corp. FRN MTN 1.17% due 7/16/04	1.17%	15,000,000.00
Goldman Sachs Group MTN 1.55% due 3/8/04	1.55%	75,298,350.00
JP Morgan Chase & Co. MTN 1.42% due 2/5/04	1.42%	60,433,884.75
Merrill Lynch & Co. MTN .98% due 6/28/04	0.98%	50,000,000.00
Merrill Lynch & Co. FRN MTN 1.31% due 7/9/04	1.31%	50,000,000.00
Morgan Stanley 5.63% due 1/20/04	1.21%	13,879,215.00
Morgan Stanley Dean Witter MTN 7.13% due 8/15/03	1.49%	1,041,260.00
Morgan Stanley FRN 1.69% due 4/5/04	1.69%	20,074,800.00
Salmon Smith Barney Holdings FRN 1.26% due 1/28/04	1.26%	25,043,500.00
Wal-Mart 3.25% due 9/29/03	1.19%	15,105,900.00
Total Corporate Notes and Bank Notes		350,876,909.75
Negotiable Certificates of Deposit:		
Bank of Montreal-Chicago 1.03% due 7/31/2003	1.03%	75,000,000.00
Branch Banking & Trust Co. 1.14% due 7/3/03	1.14%	100,000,000.00
Canadian Imperial Bank Commerce-NY 1.05% due 7/31/03	1.05%	50,000,000.00
Canadian Imperial Bank Commerce-NY 1.25% due 8/18/03	1.25%	25,000,000.00
Chase Manhattan Bank USA NA 1.07% due 6/30/04	1.07%	25,000,000.00
Citibank NA 1.26% due 7/23/03	1.26%	40,000,000.00
Deutsche Bank-NY 1.01% due 5/24/04	1.01%	25,000,000.00
Deutsche Bank-NY 1.50% due 5/24/04	1.50%	25,000,000.00
First Tennessee Bank 1.25% due 7/21/03	1.25%	25,000,000.00

	Fair Value	Percentage of Investments at Fair Value
\$	25,011,631.11	0.01
	10,581,270.00	0.00
	10,286,305.60	0.00
	25,000,000.00	0.01
	50,000,000.00	0.02
	75,000,000.00	0.03
	10,057,428.57	0.00
	22,306,297.24	0.01
	10,114,000.00	0.00
	45,958,461.43	0.02
	24,936,250.00	0.01
	49,845,583.35	0.02
	37,884,665.30	0.01
	12,308,882.78	0.01
	25,000,000.00	0.01
	434,290,775.38	0.16
	425,000,000.00	0.15
	425,000,000.00	0.15
	25,000,000.00	0.01
	15,000,000.00	0.01
	75,199,695.60	0.03
	60,403,456.74	0.02
	50,000,000.00	0.02
	50,000,000.00	0.02
	13,824,812.85	0.00
	1,006,776.28	0.00
	20,062,296.12	0.01
	25,026,837.72	0.01
	15,073,883.72	0.00
	350,597,759.03	0.13
	75,000,000.00	0.03
	100,000,000.00	0.03
	50,000,000.00	0.02
	25,000,000.00	0.01
	25,000,000.00	0.01
	40,000,000.00	0.01
	25,000,000.00	0.01
	25,000,000.00	0.01
	25,000,000.00	0.01

LOCAL GOVERNMENT INVESTMENT POOL
SCHEDULE OF INVESTMENTS, continue
As of June 30, 2003

	Yield @ Purchase	Carrying Value
First Tennessee Bank 1.25% due 7/22/03	1.25%	25,000,000.00
Landesbank Baden-Wurttemberg-NY 1.18% due 3/15/04	1.18%	25,009,250.00
State Street Bank & Trust 1.43% due 5/7/04	1.43%	25,000,000.00
State Street Bank & Trust 1.30% due 6/22/04	1.30%	25,000,000.00
Wachovia Bank 1.06% due 10/20/03	1.06%	75,000,000.00
Wells Fargo Bank NA 1.22% due 7/22/03	1.22%	24,999,998.25
Wells Fargo Bank NA 1.04% due 7/31/03	1.04%	75,000,000.00
Total Negotiable Certificates of Deposit		665,009,248.25
Non-Negotiable Certificates of Deposit:		
Community Bankers Bank 1.47% due 9/15/03	1.47%	2,000,000.00
Total Non-Negotiable Certificates of Deposit		2,000,000.00
Commercial Paper:		
Allianz Finance Corp. due 9/12/03	1.15%	24,924,930.56
Amstel Funding Corp. due 7/2/03	1.25%	19,998,611.11
Aspen Funding Corp. due 7/1/03	1.35%	49,998,125.00
Bear Stearns Co., Inc. due 7/29/03	1.25%	24,935,763.89
Beta Finance Inc. due 9/11/03	0.99%	19,950,500.00
Cargill Inc. due 7/1/03	1.28%	24,659,123.20
Delaware Funding Corp. due 7/28/03	1.05%	29,471,467.60
General Electric Capital Corp. due 7/31/2003	1.25%	20,927,812.50
General Electric Capital Corp. due 8/12/03	1.23%	14,964,125.00
General Electric Capital Corp. due 8/12/03	1.11%	14,970,862.50
ING (US) Funding due 8/19/03	1.22%	24,917,819.44
JP Morgan Chase & Co. due 7/1/03	1.05%	49,989,791.67
Merrill Lynch & Co., Inc. due 7/1/03	1.30%	29,998,916.67
Morgan Stanley due 7/1/03	1.30%	74,997,291.66
Morgan Stanley due 7/25/03	1.25%	14,952,083.33
New Center Asset Trust A-1+/P-1 due 7/1/03	1.35%	129,995,125.00
Newport Funding Corp. due 7/18/03	1.25%	24,960,937.50
Pfizer Inc. due 7/25/03	1.00%	34,959,166.67
Societe Generale North America due 8/6/03	1.05%	49,941,666.65
UBS Finance (Delaware) due 7/1/03	1.31%	134,995,087.50
USAA Capital Corp. due 7/8/03	1.06%	10,622,497.22
Wal-Mart Funding Corp. due 8/14/03	1.04%	49,929,222.22
Yorktown Capital due 7/7/03	1.02%	19,993,200.00
Total Commercial Paper		895,054,126.89
Money Market Funds:		
Short Term Investment Fund .9449% due 7/01/2003	0.94%	2,707,718.31
Total Money Market Funds		2,707,718.31
Total Investments		\$ 2,775,990,060.95

Fair Value	Percentage of Investments at Fair Value
25,000,000.00	0.01
25,007,102.68	0.01
25,000,000.00	0.01
25,000,000.00	0.01
75,000,000.00	0.03
24,999,999.41	0.00
75,000,000.00	0.03
665,007,102.09	0.24
2,000,000.00	0.00
2,000,000.00	0.00
24,924,930.56	0.01
19,998,611.11	0.01
49,998,125.00	0.02
24,935,763.89	0.01
19,950,500.00	0.01
24,659,123.20	0.01
29,471,467.60	0.01
20,927,812.50	0.01
14,965,175.00	0.00
14,969,812.50	0.01
24,917,819.44	0.01
49,989,791.67	0.02
29,998,916.67	0.01
74,997,291.66	0.03
14,952,083.33	0.00
129,995,125.00	0.04
24,960,937.50	0.01
34,959,166.67	0.01
49,941,666.65	0.02
134,995,087.50	0.04
10,622,497.22	0.00
49,929,222.22	0.02
19,993,200.00	0.01
895,054,126.89	0.32
2,707,676.70	0.00
2,707,676.70	0.00
\$ 2,774,657,440.09	1.00

LOCAL GOVERNMENT INVESTMENT POOL
Richmond, Virginia

MEMBERS OF THE TREASURY BOARD

As of June 30, 2003

Jody M. Wagner, Chair, Treasurer of Virginia

K. David Boyer, Jr.	Kenneth Thorson
Kenneth Daniels	David Von Moll
Palmer Garson	Wayne Wilbanks